



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 03-34A

Applicant: Castle Medical Center
640 Ulukahiki St., Kailua, HI
Phone: 808-263-5500

Project Title: Addition of 31 medical/surgical beds and the deletion of 26
psychiatric and 5 obstetric beds

Project Address: 640 Ulukahiki St., Kailua, HI

1. TYPE OF ORGANIZATION: (Please check all applicable)

Public	_____
Private	_____X_____
Non-profit	_____X_____
For-profit	_____
Individual	_____
Corporation	_____X_____
Partnership	_____
Limited Liability Corporation (LLC)	_____
Limited Liability Partnership (LLP)	_____
Other:	_____

2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

Statewide:	_____
O`ahu-wide:	_____X_____
Honolulu:	_____
Windward O`ahu:	_____X_____
West O`ahu:	_____
Maui County:	_____
Kaua`i County:	_____
Hawai`i County:	_____

3. DOCUMENTATION (Please attach the following to your application form):

A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent)

The designated area is located on the Castle Medical Center campus and is owned by Castle Medical Center

B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.)

Department of Planning and Permitting - PRU Building Permit

C. Your governing body: list by names, titles and address/phone numbers

Year 2003 list included

D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:

- Articles of Incorporation
- By-Laws
- Partnership Agreements
- Tax Key Number (project's location)

4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service	Change in Beds
Inpatient Facility			X		X
Outpatient Facility					
Private Practice					

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
Obstetrics	14	-5	9
Critical Care	8	0	8
Medical / Surgical	73	31	104
Psychiatric	55	-26	29
Skilled Nursing	10	0	10
TOTAL	160	0	160

7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:

1. Implementation Schedule

- a) Date of site control for the proposed project

May 10, 2004 (mobilization and setting up staging areas)

- b) Dates by which other government approvals/permits will be applied for and received

Department of Planning and Permitting - Original PRU submittal date was September 23, 2003 with approval expected by March 31, 2004.

- c) Dates by which financing is assured for the project,

Funding will be provided through our capital budget. This proposal has been reviewed and approved by Castle Medical Center's Senior Management, our Board of Trustees and corporate office.

- d) Date construction will commence,

June 15, 2004

- e) Length of construction period,

Twenty two months

- f) Date of completion of the project,

- a) Date of commencement of operation

May 30, 2006. This date represents final clean up, punch list completion, demobilization, and final occupancy of the last phase of construction. Earlier phases will commence operation before project completion.

Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

2. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

- a) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.
- b) Need and Accessibility
- c) Quality of Service/Care
- d) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- e) Relationship to the existing health care system
- f) Availability of Resources.

Project Description:

Castle Medical Center ("Castle") seeks approval to renovate its medical campus in Kailua. The project involves a three-level addition on the West Side of the existing Castle hospital. The addition will house 15 single patient surgical / joint care / GYN rooms on the third floor; 15 single patient telemetry rooms on the second floor; and shelved space for future development on the first floor. Sixteen rooms will have provisions for dialysis care. In addition, the project will involve renovation of a "vacant" third floor south which currently has existing psychiatric type single, double, and triple bed rooms to accommodate surgical beds (2 south) and joint care center beds (1 south) in an equitable distribution of single and double beds. The general purpose of the project is to enhance Castle's effectiveness as a health care provider through increasing space for patients and modernizing current facilities.

SHPDA's account of 160 beds will remain the same. However, there will be some changes in bed service categories. There are currently 73 licensed medical / surgical beds. Castle's intention is to convert 26 underutilized psychiatric beds and 5 underutilized obstetric beds into medical / surgical beds. This will create a total of 104 medical / surgical beds, 29 psychiatric beds and 9 obstetric beds. Through these changes, Castle will be able to accommodate a growing need for medical / surgical beds in Windward Oahu.

These changes are not as significant as they appear. While SHPDA currently has an account of 55 psychiatric beds, 26 have not been in use recently. These beds had been designated for psychiatric care, but consistent underutilization meant costly maintenance for Castle. The beds were subsequently taken out of service and have not been in use as psychiatric beds since that time. Therefore, Castle is seeking to convert these 26 beds to medical / surgical beds to help meet other needs. The end result will be that Castle's ability to accommodate psychiatric patients will not change. The same 29 psychiatric beds will continue to be available.

Furthermore, Castle is the only facility providing health care services to Windward Oahu. The lack of space and medical / surgical beds, specifically, has made it difficult, at times, to provide health care to Castle's primary service area. When Castle does not have the capacity to serve its community, patients must travel a significant distance to Honolulu to receive medical treatment. More than an inconvenience, increased travel time and limited mobility caused by traffic can result in unnecessary risks to patient safety and health in Windward Oahu. For this reason, it is important that Castle maintain a state of the art health care facility with the capacity to serve all Windward patients. For patients who are unable to travel into Honolulu, whether because it is inconvenient or because they lack mobility, Castle is the only choice.

A) Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.

The proposed project supports H2P2's goal of achieving "equitable and effective access at reasonable cost for all Hawaii's residents ..." and its objective of "reducing morbidity and pain through timely and appropriate treatment" will be supported by the proposed project by enabling Castle to upgrade its facilities and adjust its current acute care bed capacity to adapt to increasing occupancy. In addition, this proposal will help Castle meet H2P2's goal of establishing regionalized health care delivery systems that include community input, are cost-effective, and foster improved access to quality health care services.

The proposal serves to improve patient access to Castle's health care services. Shifting bed categories will further support comprehensive delivery to the patient and family as Castle's medical / surgical beds reach maximum utilization capacity. This will increase the hospital's ability to accommodate an increasing demand for services in an efficient, cost-effective way. Castle provides Hawaii with comprehensive, multi-facility services that span the entire continuum of care, from educational and preventive services to ongoing medical care to hospice care at the end-of-life.

In addition, this proposal serves to reduce morbidity and pain through timely and appropriate treatment. H2P2's regional priorities for Windward Oahu include "heart conditions" and "malignant neoplasms." This proposed project supports these priorities by enhancing Castle's current delivery system through increasing the number of medical / surgical beds available and by providing patients with more room and more modern facilities. The proposed renovation and bed changes facilitate timely and appropriate treatment, by increasing capacity and enabling a greater portion of the community to be served. Ultimately, the additional space will allow physicians to provide preventive health care diagnosis or care especially for heart disease and malignant neoplasm, which are two of the top six health risks prevalent in the Windward area population.

Furthermore, Castle has a history of partnering with the greater Oahu community to help eliminate preventable illness, disability, and premature death through various educational, exercise, and other programs that promote a healthy lifestyle. Castle further acknowledges that improvements to delivery of care must be regularly addressed.

B) Need and Accessibility

The service area of the proposed project will be the island of Oahu and, specifically, Windward Oahu. In 2002, the population of Oahu was 896,019. Between 1990 and 2000, the population of Oahu grew from 836,231 to 876,156. (See Hawaii Data Book Table 1.06, Resident Population by Counties: 1980 to 2002.) By the year 2010, the population of Oahu is expected to 929,200. (See Hawaii Data Book, Table 1.24 – Resident Population Projections by Counties: 1998 to 2025.) The proposed bed changes will accommodate this increase in population.

In 2002, Castle had a medical / surgical bed utilization rate of 78.89%. After St. Francis – West Hospital, this was the highest utilization rate on Oahu. A frequently-accepted benchmark in the hospital industry is that an acute care hospital should plan for no more than an 85% average occupancy rate. Beyond that, the hospital is unable to provide enough beds to meet the fluctuations of peak demands, such as seasonal increases or flu epidemics. There were times in 2002 when Castle's emergency bays were occupied by patients waiting for medical / surgical bed services. During times of high occupancy, patients requiring medical / surgical care were occasionally serviced in obstetric or psychiatric bed settings. Overall, the proposed bed changes will allow for additional capacity during high occupancy, and will help to avoid any back – up in the Emergency Room. These bed changes will allow patients to get appropriate emergency treatment in a timely manner. With the expected increase in population, the need for surgical beds will continue to increase as the population increases and ages, and as the number of long-term patients waitlisted in acute beds increases.

The bed change shifts will not adversely affect services utilizing obstetric or psychiatric beds. In 2002, the utilization rate for psychiatric beds was 70.11%, as applicable to the 29 psychiatric beds in use. Castle does not anticipate an increase in utilization of these 29 beds. As indicated previously, there will be no change to these 29 beds. Castle is merely proposing to convert 26 beds, currently categorized as psychiatric beds, but not utilized as such, to medical / surgical beds. Furthermore, in 2002, Castle's utilization rate for obstetric beds was only 43.97%. With the addition of medical / surgical beds, GYN surgery patients who are currently serviced in obstetric beds will more appropriately receive care in medical / surgical beds. This will further free up additional obstetric beds. Therefore, the decrease in psychiatric and obstetric beds will not impact Castle's ability to care for psychiatric and obstetric patients.

In addition, Castle's facilities must be renovated to meet current building codes and Joint Commission on Accreditation of Healthcare Organizations (JCAHO) standards. Although renovating older areas would satisfy regulatory requirements, it would only be a temporary fix. Therefore, this project represents a longer term solution to Castle's problem of aging facilities. Without this project, Castle risks future reductions in acute care bed capacity because renovations to meet life safety code standards will still need to be done.

Finally, adding patient rooms will allow patients access to individualized showers. This has been a problem for Castle over the last few years. Castle has been unable to fully accommodate patients because of a lack of space and proper facilities.

Castle currently provides and will continue to provide services for all residents of the area, and in particular low-income persons, racial and ethnic minorities, women, handicapped persons, and the elderly.

REPLACEMENT PAGE

C) Quality of Service/Care

Castle has provided Windward Oahu residents with quality health care since 1963. It is a full-service medical center, offering a wide range of inpatient, outpatient and home-based services. Each year, Castle provides care for 6,000 inpatients, 42,000 outpatients and 16,000 emergency patients. While Castle serves all of Oahu, it is the primary health care facility for Windward Oahu.

Castle will comply with State and Federal regulations for delivery of care, maintenance of service equipment, and maintenance of clinical environment. Castle is accredited by JCAHO, licensed by the State of Hawaii Department of Health, and is in good standing with the Medicaid and Medicare healthcare programs.

Castle provides patient care through well-defined processes for caregivers. Castle conducts regular performance reviews of employees which, among other things, are used to identify strengths, identify areas for improvement, document professional performance, and gather data as a guide for such actions as wage increases, promotions, disciplinary action and reassignment. The performance review "rates" employees on the basis of their performance and length of time in the position in relation to the performance requirements of that position.

Quality service for medical / surgical patients requires the availability of medical / surgical beds. Without sufficient beds, acute patients are backed up in the Emergency Room, patients receive care in inappropriate bed settings, emergency patients have delays in receiving emergency care, and elective procedures have to be re-scheduled or are delayed.

D) Cost and Finances (include revenue/cost projections for the first and third year of operation)

Although the total cost of the project is estimated to be approximately fifteen million dollars, a significant portion of that is the result of costs related to non-medical administrative enhancements. There are no other service changes or additions. In isolating out other costs, Castle's estimation is that the bed category changes will cost approximately \$4.5 million. As discussed previously, the majority of these beds are simply going from being unutilized psychiatric beds, to utilized medical / surgical beds. Therefore, there will be no sudden shifts in Castle's ability to care for psychiatric patients. Rather, this shift will allow Castle to better accommodate a growing need for medical / surgical beds in Windward Oahu.

Attached are revenue / cost projections for the first and third year of the proposed project.

E) Relationship to the existing health care system

The project will meet the need of the patient population and communities that are served by Castle. The expansion and renovation of Castle's existing facility in Kailua is necessary to keep up with current needs in Windward Oahu. This project allows Castle to continue to serve the Windward community with appropriate care.

Castle is the anchor health care facility for the Windward communities. The renovation will serve to modernize the facility and, therefore, provide greater capacity for care and effectively improve response to patient needs. The project will not restrict health care accommodations for any bed category. The psychiatric beds that are being converted to

medical / surgical beds are currently not utilized. If anything, Castle will be making use of beds that are currently underutilized.

There is no reason to believe that the renovation of Castle will adversely impact the other health care services in the community.

F) Availability of Resources

Committed funds for the construction and operation of the hospital renovation project will be made available through debt financing and through Castle's budgeted capital. Castle will obtain approximately \$2,500,000 in construction financing as a loan from its parent entity, Adventist Health. The remaining \$2,000,000 will come from cash available in Castle's budgeted capital. In addition, based on Castle's revenue projections, the proposed project will have an estimated net income in its first year of operation. Therefore, additional operating subsidy is not anticipated to be required.

The service will require a total of 20 new FTE staff to provide services to the beds reassigned from psychiatric to medical / surgical services, based on projected utilization. There will be an estimated 15 nursing FTE (RN and CNA) with an annual cost of \$842,400. There will also be an estimated 4 environmental services (housekeeping) FTE with an annual cost of \$110,656. There is also expected to be 1 facility services (technician) FTE with an annual cost of \$34,320.

Although there is a shortage of nurses throughout the industry, Castle has successfully hired and retained new nursing staff. Castle is confident that it can recruit the additional staff needed to operate the increased medical / surgical beds proposed in this project.

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